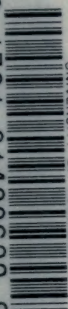



3 1761 01430632 8



UNIVERSITY OF TORONTO

Kahn, Otto Hermann  
Suggestions concerning  
the railroad problem

HE  
2757  
1919  
K35



Digitized by the Internet Archive  
in 2007 with funding from  
Microsoft Corporation

INTERSTATE COMMERCE COMMISSION  
AUG 15 1922  
LIBRARY

---

# Suggestions Concerning the Railroad Problem

BY  
OTTO H. KAHN

---

LIBRARY  
JAN 20 1928  
UNIVERSITY OF TORONTO



HE

2757

1919

K35



908638

# Suggestions Concerning the Railroad Problem

A paper by Mr. Kahn read before the  
Brooklyn Chamber of Commerce  
February 18, 1919

IT is one of the characteristic qualities of the American people to learn quickly. One year's experience has sufficed to demonstrate to the people at large that Government operation of railroads means deterioration in service, higher cost, lessened eagerness to please the shipper and study his convenience—not to mention the menace of politics becoming a determining factor in the fixing of wages, in new construction, betterments, etc.

I believe that a decisive majority of the farmers, the shippers and the consumers in general have made up their minds that in this country Government operation of railroads is not wanted.

Every right-thinking man must wish to see railroad labor, as indeed all labor, content and

## SUGGESTIONS CONCERNING

liberally compensated. The just claims of labor are the first charge upon any industry. They take precedence over the claims of capital and even those of the consumer in general.

But it is not reconcilable with the American theory of government to give to any executive department the power, without a searching public hearing before at least a semi-judicial body, to increase the wages of one class of labor, as was done in the case of railroad workers, by the stupendous sum of \$600,000,-000-\$800,000,000 a year and to apportion it by rigid and indiscriminating classification.

The increase in wages actually paid in the year 1918 is officially stated at \$583,000,000, but I am informed that when the increases granted are in full effect for a complete year, they are expected to reach approximately \$800,000,000. The tax thus placed upon the consumers of the country, particularly the shippers and farmers, is equal to the total



interest on our entire net war debt as estimated (excluding loans to the allies) and, capitalized at four and one-half per cent., represents a principal sum of approximately \$18,000,000,000, i. e. approximately the same as the total cost of the war to America.

An increase in wages was justly due; indeed, in many cases overdue. No doubt, the Committee selected by the Director General, upon the investigation and recommendation of which the action was based, did its work ably and conscientiously. The increase granted may not be more than was justly due. Its apportionment may have been fully justified. But, after all, it is the public which pays the bill, and the public had no opportunity to formulate views or make itself heard on the subject before action was taken.

It may not be inappropriate to point out in comparison to the *increase* of about \$800,000,000 granted to labor over and above its existing compensation, that the *total compensation* which capital (including therein

the brain work and enterprise which have gone into the building up of the American railroad system), receives in the shape of rental for all of the railways of the country, is about \$900,000,000 per year. And that sum includes interest on borrowed money to the extent of about \$500,000,000 per year, *leaving as compensation to the owners of the roads the sum of about \$400,000,000* (apart from about \$165,000,000 income derived from miscellaneous physical property and "non-operating income").

The *total* wages paid to railroad labor for the past year are estimated at \$2,400,000,000.

Nor is the effect of the increase in wages measured even by the huge sum of \$800,000,000, at least as far as unskilled labor is concerned, for it is bound to affect wages in other industries and particularly the wages which the farmer has to pay.

The program, in support of which I believe



public opinion is crystallizing more and more, is:

1. Let the Government exercise strong and comprehensive control, but fair and constructive, not punitive or strangling.

2. Let those features of operation, which under Government management have proved advantageous and convenient to the public, be preserved and those features of legislation and administration, which experience has shown to be unduly and unwisely hampering, be abolished.

3. Without eliminating State commissions, let their functions be so adjusted as to avoid conflict with the Federal Commission in matters of rate-making and security issues.

4. Let railroading then be thrown open to private initiative and enterprise, and competition in service; make it an attractive field for capital, and, above all, for men of ability and vision.

*If there is one thing less desirable than out-right Government operation, it is Government control so minute, hampering and all-pervasive as to be tantamount to Government operation, without corresponding responsibility. Most of the plans which have been put forward within*

recent weeks from individual quarters, would mean this very thing. Their authors start by declaring themselves utterly opposed to Government operation, and then devise a set of provisions, which to all intents and purposes, are equivalent to Government operation, or would necessarily lead to it. A feature common to all such plans, and, in my opinion, their fatal defect and largely the explanation of their self-contradictory character, is that they are based upon a permanent Government guarantee of minimum earnings for the railroads.

The two things, i. e., private management and permanent Government guarantee of earnings, are simply not reconcilable. The railroads cannot eat their cake and have it. You cannot rent your house to some one and then expect to be master in your house. If the railroads want to have private management in fact, instead of merely in name, they must take their chances and rely upon public opinion for a square deal. If they are not willing to do that, if they ask the

*people to protect them by giving them a permanent guarantee of minimum earnings, the people will rightly insist upon such minute and exacting safeguards as to amount in effect to Government operation.*

*Personally, I am wholly opposed to the timid opportunism which would barter away the reality of private initiative and enterprise for a permanent governmental guarantee of earnings. If we cannot as citizens be convinced that bureaucratic management is preferable to individual effort, we must not as stock or bondholders permit ourselves to be bribed into making a compromise with our convictions. And I am optimistic enough to believe that by deserving the good-will and confidence of the people, and making adequate efforts to keep them correctly informed, the railroads will get a square deal from the people.*

I think, indeed, that public opinion has come to recognize, not from tender regard for the railroads, but from enlightened self-



## SUGGESTIONS CONCERNING

interest, that the roads must be given such treatment henceforth and permitted such opportunity as will attract a free flow of capital; because, otherwise, one of two things is bound to result: stagnation in the railroad industry, which means inadequate and insufficient service for a growing and developing country, or Government ownership and operation.

If we are agreed that what we want is real private management under strict but fair, workable and constructive Government supervision and regulation, with no permanent guarantee of earnings (but rather profit-sharing with the Government and perhaps with labor), it seems to me that the framing of appropriate legislation presents no extraordinary difficulty, provided that an equitable basis of rate-making is established and defined with sufficient preciseness to enable the railroads to obtain actually, instead of merely theoretically as heretofore, the pro-

tection of the courts against the imposition of unduly low rates.

I hesitate to express opinions as to this thorny point, concerning which so many better qualified than I appear to hold conflicting views, but I venture to throw out these suggestions for what they may be worth:

Scientific rate-making is an impossibility. A mathematical, uniformly applicable formula for rate-making might have been possible when the railroads started to come into being. It is no longer possible now. The rate structure is the product of a great many years of testing, experimenting, adapting, bargaining between the railroads and shippers, consumers, ports, cities, etc., in short, the result of evolution. It is of infinite intricacy, of manifold and subtle inter-relationship.

It is no more practicable to make it over at this late date on lines of theoretical perfection, than it is practicable to make over on such lines a large city, the growth of generations.

Capitalization or over-capitalization has no effect whatever on rate-making, nowadays. I doubt whether it ever had any.

Even the true value of railroad properties, as ascertained by valuation (to the extent that it can be so ascertained) can merely be one of the factors in rate making. As a matter of fact, I believe that from *the practical point of view* a valuation of railroad properties such as the Interstate Commerce Commission has been engaged in for several years at the expense of prodigious labor and of many millions of dollars, will prove largely futile, because I think a fair appraisal on such principles as the courts will uphold, will show that the railroads on the whole are not over-capitalized and that existing rates certainly do not err on the side of giving more than a fair return.

But I realize that to satisfy public opinion, a large portion of which suspects the railroads of taxing the people to pay dividends on watered stock, an authoritative appraisal of



the true values of railroad properties must be had.

It should be borne in mind, however, that the completion of such an appraisal will still take years, and that not a few of the awards, in all probability, will have to be reviewed by the courts before they can become definitely established.

My suggestions, in view of these circumstances, are:

1. *Until the valuations are completed*, let the I. C. C.\* or other authority (having first been granted exclusive power in rate-making) be directed to consider the existing rates as prima facie fair and reasonable on the basis of existing wages and costs, subject to such adjustment of inequalities or injustices between localities and shippers as the I. C. C. may determine (or better still, Regional Committees of Railroad Presidents and shippers subject to the I. C. C.'s casting vote in case of disagreement).

\*Interstate Commerce Commission

2. If wages and cost of materials decrease, let rates decrease proportionately (as determined, say every six months), but *pending the completion of the valuation*, rates are not to be diminished below figures which would produce as near as may be an aggregate return equivalent to the rental now being paid by the Government for the use of the railroads, plus a fair return upon such new money as may be put into the properties.

3. In the new railroad legislation about to be framed by Congress let it be precisely defined, instead of having merely a vague and unenforceable formula as heretofore, what items are to be considered by the I. C. C. (or such regional bodies as may be appointed) in fixing rates. The principal ones amongst those items are, of course: Wages, cost of materials, and a return on the fair value of railroad properties at a sufficient rate to attract new capital and stimulate enterprise. *It is surely not beyond the capacity of language*

*to define with clarity what items enter into the cost of a product. The product which railroads are selling is transportation of passengers and goods. The price of the product is the rate.*

Of course, I realize that the satisfactory working of the method proposed is still dependent, to an extent, on the fairness and breadth of view of the rate-making authority, whether it be the I. C. C. or some newly designated authority, and that it does not provide a self-working formula. But a self-working formula in rate-making is, I believe, a practical impossibility.

At any rate, under the proposed definition the railroads could appear before the I. C. C. or regional commissions, with a precise charter of rights, instead of, as in the past, having to come as importunate beggars, throwing themselves upon the mercy of the Commission, with the effect of undermining their own credit by pleading and perhaps over-pleading the dire need for higher rates and the dis-



astrous consequences which would follow if higher rates were not granted. And if the commissions disregarded the rights of the railroads to a fair price for their product, they could under the definition above suggested go to the courts and obtain prompt and effective redress, which under the vague terms of the existing law is in fact denied to them.

I hardly need emphasize that the views I have expressed do not attempt to address themselves to a complete program of railroad legislation, but—as far as they offer positive suggestions—merely to the matter of *assuring* fair rates as against the proposal of a Government guarantee of minimum earnings.

I should like to add that, whilst I believe the number of separate railroad corporations could with advantage be greatly diminished and the absorption of the weaker lines by the strong lines should in the interest of good service to the public be facilitated and encouraged, I am opposed to the suggestion that the

number of independent systems should be so reduced as to give the country over to a very few great regional combinations. My antagonism to this proposal rests on the ground that I believe it would diminish competition to the vanishing point and soon lead to Government operation in fact, if not in name.

The open-minded spirit and the conscientious and painstaking manner in which the Senate Committee is conducting the hearings on this subject are wholly admirable. In their attitude towards the problem they are, I believe, correctly representing the temper of the public which never, in my recollection, has been so predisposed for a tranquil and dispassionate consideration of the complex and difficult questions involved. All the more reason why those who by experience and study are qualified to contribute to the discussion of the problems, should express their true views with complete frankness and not make themselves sponsors for makeshift com-

## SUGGESTIONS CONCERNING THE RAILROAD PROBLEM

promises. To reconcile conflicting views, to determine the weight to be attached to varying claims, is the task, not of the witness, but of the legislator.









HE  
2757  
1919  
K35

Kahn, Otto Hermann  
Suggestions concerning  
the railroad problem

PLEASE DO NOT REMOVE  
CARDS OR SLIPS FROM THIS POCKET

---

UNIVERSITY OF TORONTO LIBRARY

---



